



PROPOSED RULE MAKING
(RCW 34.05.320)

CR-102 (7/22/01)
Do NOT use for expedited
rule making

Agency: Board of Accountancy

- ☒ Preproposal Statement of Inquiry was filed as WSR 03-12-052 ; or
☐ Expedited Rule Making -- Proposed notice was filed as WSR _____; or
☐ Proposal is exempt under RCW 34.05.310(4).

- ☒ Original Notice
☐ Supplemental Notice
to WSR _____
☐ Continuance of WSR _____

(a) Title of rule: (Describe Subject) See attached

Purpose: To adopt or amend rules to implement the revisions to chapter 18.04 RCW passed through the 2003 Legislative Session
(Substitute House Bill 1211)

Other identifying information:

(b) Statutory authority for adoption: See attached

Statute being implemented: See attached

(c) Summary: See attached

Reasons supporting proposal: Substitute House Bill 1211 that passed through the 2003 Legislative Session revised the Public Accountancy Act (chapter 18.04 RCW). The Board of Accountancy is required to adopt and amend rules to implement the revisions to chapter 18.04 RCW.

(d) Name of Agency Personnel Responsible for:	Office Location	Telephone
1. Drafting..... Dana M. McInturff, CPA	Olympia, Washington	(360) 586-0163
2. Implementation.... Dana M. McInturff, CPA	Olympia, Washington	(360) 586-0163
3. Enforcement..... Dana M. McInturff, CPA	Olympia, Washington	(360) 586-0163

(e) Name of proponent (person or organization): Primarily the Washington State Board of Accountancy

- ☐ Private
☐ Public
☒ Governmental

(f) Agency comments or recommendations, if any, as to statutory language, implementation, enforcement and fiscal matters:

(g) Is rule necessary because of:

Federal Law?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Federal Court Decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
State Court Decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

If yes, ATTACH COPY OF TEXT
Citation:

(h) HEARING LOCATION:

Hilton Seattle Airport & Conference Center
17620 Pacific Highway South
SeaTac, WA

Submit written comments to:

Dana M. McInturff, Executive Director
PO Box 9131
Olympia, WA 98507-9131

FAX (360) 664-9190 By (date) 10/17/03

Date: 10/30/03 Time: 1:00 p.m.

DATE OF INTENDED ADOPTION: 10/31/03

Assistance for persons with disabilities: Contact
Cheryl Sexton by 10/24/03

TDD (800) 833-6384 or (360) 664-9194

NAME (TYPE OR PRINT)

Dana M. McInturff, CPA

SIGNATURE

TITLE

Executive Director

DATE

August 15, 2003

CODE REVISER USE ONLY

CODE REVISER'S OFFICE
STATE OF WASHINGTON
FILED

AUG 18 2003

TIME

3:52
03-18-061

AM

PM

(COMPLETE REVERSE SIDE)

(j) Short explanation of rule, its purpose, and anticipated effects:
See attached

Does proposal change existing rules? ☒ YES ☐ NO
See attached

If yes, describe changes:

(k) Has a small business economic impact statement been prepared under chapter 19.85 RCW?

☐ Yes. Attach copy of small business economic impact statement.
A copy of the statement may be obtained by writing to:

telephoning: ()
faxing: ()

☒ No. Explain why no statement was prepared
The proposed rules will not have more than minor economic impact on business

(l) Does RCW 34.05.328 apply to this rule adoption? ☐ Yes ☒ No

Please explain: The Board of Accountancy is not one of the agencies required to submit to the requirements of RCW 34.05.328.

(a) Title of rule:

WAC 4-25-410	Definitions
WAC 4-25-640	Clients' confidential information.
WAC 4-25-670 - New	What enforcement actions must be reported to the board?
WAC 4-25-750	What are the CPA firm licensing requirements?
WAC 4-25-910	What are the bases for the board to impose discipline?

(b) Statutory authority for adoption and Statute being implemented:

	(b) Statutory authority for adoption	Statute being implemented:
WAC 4-25-410	RCW 18.04.055	RCW 18.04.055(16)
WAC 4-25-640	RCW 18.04.055(2); 18.04.390(4)(b); and 18.04.405(1)	RCW 18.04.390(4)(b) and 18.04.405(1)
WAC 4-25-670	RCW 18.04.195(10)(b) and 18.04.215(9)(b)	RCW 18.04.195(10)(b) and 18.04.215(9)(b)
WAC 4-25-750	RCW 18.04.055(8); 18.04.195; and 18.04.205	RCW 18.04.055(8); 18.04.195; and 18.04.205
WAC 4-25-910	RCW 18.04.055(16); 18.04.295; and 18.04.305	RCW 18.04.055(16); 18.04.295; and 18.04.305

(c) Summary: Due to the passage of SHB 1211 rule making is required to implement the new provisions of chapter 18.04 RCW related to (1) workpapers and document retention, (2) sub-sections 18.04.195(10) and 18.04.215(9) RCW requiring self-reporting to the Board by licensees (firms and individuals), certificateholders, and nonlicensee owners within 30 days of certain enforcement related actions by federal agencies, state agencies, and nongovernmental professionally related standard-setting entities, (3) raising the maximum fine to \$30,000, (4) requiring firms to notify the board in writing within 90 days of falling out of compliance with ownership requirements, and (5) definitions related to (1), (2), and (3).

(j) Short explanation of rule, its purpose, and anticipated effects:

The Board's goal with all of its rule proposals is to:

- Promote clarity
- Ensure effective communication
- Ensure fairness in interpretation and application of the rules
- Promote efficiencies through minimizing gray areas

Specifically:

WAC 4-25-410	Defines terms used throughout the Board's rules to provide clarity for users.
WAC 4-25-640	Incorporates parts of statute (RCW 18.04.390) into the Board's rules of professional conduct. Restating the statute in Board rule makes the rule complete. It is confusing and difficult for individuals (CPAs and the public) to review both the RCW and WAC to find the requirements related to a certain activity. The rule establishes what records are the property of a licensee; prohibits the sale or transfer of client records without the consent of the client; clarifies that certificateholders are also obligated to comply with specific subsections concerning records and client confidential information; and establishes the requirements for audit and review work paper retention. These standards of professional conduct are needed to protect the public by ensuring privacy and record accessibility.
WAC 4-25-670 - New	RCW 18.04.195(10) and RCW 18.04.215(9) direct the Board to set out what enforcement actions taken by other regulatory bodies must be reported to the Board. The Board cannot ensure that other regulatory bodies report enforcement actions taken against Washington CPAs. The reporting of enforcement actions by other regulatory bodies taken against CPAs and nonlicensee firm owners ensures that the Board will be informed and can take disciplinary action, if necessary. These reporting requirements are necessary to protect the public ensuring Washington state CPAs are operating under the appropriate technical and ethical standards particularly with CPA firms auditing publicly traded companies.

WAC 4-25-750	RCW 18.04.205(3) directs the Board to prescribe the procedures to be followed to register and maintain offices established for the practice of public accounting in Washington state. RCW 18.04.195 requires CPA firms to obtain, and renew, licenses to practice public accounting.
WAC 4-25-910	RCW 18.04.295 and 18.04.305 authorize the Board to impose discipline against Washington CPAs, CPA firms, permitholders, or resident nonlicensee firm owners. Using the clear rule writing technique that eliminates confusion, this rule lists specific examples of prohibited acts that constitute grounds for discipline.

(j) Does proposal change existing rules? Yes

If yes describe changes:

WAC 4-25-410	<ul style="list-style-type: none"> • Adds the definition of "Independence." • Adds the definition of "IRS," "PCAOB," and "SEC" in support of revisions to WAC 4-25-910 and the proposed WAC 4-25-670.
WAC 4-25-640	<ul style="list-style-type: none"> • Adds the statutory explanation of what constitutes property of the licensee • Adds the statutory requirements for the sale or transfer of client records • Adds certificateholders to the listing of those who may not disclose confidential client communication or information. • Clarifies that the employees referenced in the rule are the employees of licensees • Adds certificateholders to the listing of those who must furnish client records to their clients • Adds audit and review record retention requirements
WAC 4-25-670	New rule that identifies which enforcement actions must be reported to the Board.
WAC 4-25-750	<ul style="list-style-type: none"> • Adds the consequences of a CPA firm's failure to file a complete renewal form by the due date. • Adds authority for the Board to waive, reduce, or extend the renewal due date and/or late fees based on hardship • Revises the rule to align with the 90-day notification provisions changed in RCW 18.04.195
WAC 4-25-910	<ul style="list-style-type: none"> • Aligns the maximum fine (up to \$30,000) with the maximum changed in RCW 18.04.295, 370 • Adds the new self-reporting provisions (from the new statute)

AMENDATORY SECTION (Amending WSR 02-04-064, filed 1/31/02, effective 3/15/02)

WAC 4-25-410 Definitions. For purposes of these rules the following terms have the meanings indicated unless a different meaning is otherwise clearly provided in these rules:

(1) **"Act"** means the Public Accountancy Act codified as chapter 18.04 RCW.

(2) **"Active individual participant"** means a natural person whose primary occupation is at the firm or affiliated entity's business. An individual whose primary source of income from the business entity is provided as a result of passive investment is not an active individual participant.

(3) **"Affiliated entity"** means any entity, entities or persons that directly or indirectly through one or more relationships influences or controls, is influenced or controlled by, or is under common influence or control with other entities or persons. This definition includes, but is not limited to, parents, subsidiaries, investors or investees, coinvestors, dual employment or management in joint ventures or brother-sister entities.

(4) **"Attest services"** are services performed by a licensee in accordance with:

(a) Statements on Auditing Standards and related Auditing Interpretations issued by the American Institute of Certified Public Accountants (AICPA);

(b) Statements on Standards for Accounting and Review Services and related Accounting and Review Services Interpretations issued by the AICPA; and

(c) Statements on Standards for Attestation Engagements and related Attestation Engagements Interpretations issued by the AICPA.

(5) **"Audit," "review," and "compilation"** are terms reserved for use by licensees and individuals granted practice privileges under the act.

(6) **"Board"** means the board of accountancy created by RCW 18.04.035.

(7) **"Certificate"** means a certificate as a CPA issued in the state of Washington prior to July 1, 2001, as authorized by the act, unless otherwise defined in rule.

(8) **"Certificateholder"** means the holder of a certificate as a certified public accountant who has not become a licensee, has maintained CPE requirements, and who does not practice public accounting.

(9) **"Client"** means the person or entity that retains a CPA firm, a CPA, the CPA's firm, or a firm owner, an affiliated entity, or the owner of an affiliated entity through other than an employer/employee relationship.

(10) **"Commissions and referral fees"** are compensation arrangements where:

(a) The primary contractual relationship for the product or service is not between the client and the CPA firm, the CPA, the CPA's firm, or a firm owner;

(b) The CPA firm, the CPA, the CPA's firm, or a firm owner is not primarily responsible to the client for the performance or reliability of the product or service;

(c) The CPA firm, the CPA, the CPA's firm, or a firm owner adds no significant value to the product or service; or

(d) A third party instead of the client pays the CPA firm, the CPA, the CPA's firm, or a firm owner for the products or services.

(11) **"Contingent fees"** are fees established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service.

(12) **"CPA"** or **"certified public accountant"** means a person holding a CPA certificate or a CPA license recognized in the state of Washington, including a person granted practice privileges pursuant to RCW 18.04.350(2).

(13) **"CPE"** means continuing professional education (see also **"Interactive self-study program"**).

(14) **"Entering the state"** means an individual is practicing public accounting in the state of Washington and that individual spends more than ten percent of his or her total work hours on activities conducted within the state of Washington, maintains an office or workstation in the state of Washington or advertises to provide his or her services within the state of Washington.

(15) **"Enterprise"** means any person or entity, whether organized for profit or not, with respect to which a CPA firm, a CPA, a CPA's firm, or a firm owner performs professional services.

(16) **"Firm"** means a sole proprietorship, a corporation, or a partnership. **"Firm"** also means a limited liability company formed under chapter 25.15 RCW.

(17) **"Generally accepted accounting principles"** (GAAP) is an accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations.

(18) **"Generally accepted auditing standards"** (GAAS) are guidelines and procedures, promulgated by the AICPA, for conducting individual audits of historical financial statements.

(19) **"Holding out"** means any representation to the public by the use of restricted titles as set forth in RCW 18.04.345 by a person or firm that the person or firm holds a license or practice privileges under the act and that the person or firm offers to perform any professional services to the public as a licensee. **"Holding out"** shall not affect a person or firm not required to hold a license under the act from engaging in practices identified

in RCW 18.04.350.

(20) **"Inactive"** means the certificate is in an inactive status because a person, who held a valid certificate on June 30, 2001, has not met the current requirements of licensure and has been granted inactive certificateholder status through the renewal process established by the board.

(21) **"Independence"** means an absence of relationships that impair a licensee's impartiality and objectivity in rendering attest services.

(22) **"Interactive self-study program"** means a CPE program designed to use learning methodologies that simulate a classroom learning process by employing software or administrative systems that provide significant ongoing interactive feedback to learners regarding their learning progress.

~~((+22+))~~ (23) **"IRS"** means Internal Revenue Service.

(24) **"License"** means a license to practice public accountancy issued to an individual under the act or a license issued to a firm under the act.

~~((+23+))~~ (25) **"Licensee"** means the holder of a license to practice public accountancy issued under the act.

~~((+24+))~~ (26) **"Manager"** means a manager of a limited liability company licensed as a firm under the act.

~~((+25+))~~ (27) **"NASBA"** means the National Association of State Boards of Accountancy.

~~((+26+))~~ (28) **"Natural person"** means a living, human being.

~~((+27+))~~ (29) **"Nonlicensee owner"** means a CPA firm owner who is not licensed in any state to practice public accountancy.

~~((+28+))~~ (30) **"PCAOB"** means Public Company Accounting Oversight Board.

(31) **"Peer review"** means a study, appraisal, or review of one or more aspects of the attest work of a licensee or licensed firm in the practice of public accountancy, by a person or persons who hold licenses and who are not affiliated with the person or firm being reviewed, including a peer review, or any internal review or inspection intended to comply with quality control policies and procedures, but not including the "quality assurance review" under RCW 18.04.025(14).

~~((+29+))~~ (32) **"Practice privileges"** means an individual:

- Has a principal place of business outside of Washington state;
- Is licensed to practice public accounting in another state;
- Has notified the board of intent to enter the state;
- Meets the statutory criteria for a grant of privileges;
- Is subject to discipline in the state of Washington; and
- Must comply with the act and all board rules applicable to Washington state licensees to retain the privilege.

~~((+30+))~~ (33) **"Principal place of business"** means a single fixed location designated by the individual from which the individual directs, controls, and coordinates the majority of his or her business activities.

~~((+31+))~~ (34) **"Public practice"** or the "practice of public

accounting" means performing or offering to perform by a person or firm holding itself out to the public as a licensee, for a client or potential client, one or more kinds of services involving the use of accounting or auditing skills, including the issuance of "audit reports," "review reports," or "compilation reports" on financial statements, or one or more kinds of management advisory, or consulting services, or the preparation of tax returns, or the furnishing of advice on tax matters.

((+32+)) (35) **"Quality assurance review or QAR"** is the process, established by and conducted at the direction of the board, of study, appraisal, or review of one or more aspects of the attest work of a licensee or licensed firm in the practice of public accountancy, by a person or persons who hold licenses and who are not affiliated with the person or firm being reviewed.

((+33+)) (36) **"Reciprocity"** means board recognition of licenses, certificates or other professional accounting credentials that the board will rely upon in full or partial satisfaction of licensing requirements.

((+34+)) (37) **"Referral fees"** see definition of "commissions and referral fees" in subsection (10) of this section.

((+35+)) (38) **"Reports on financial statements"** means any reports or opinions prepared by licensees, based on services performed in accordance with generally accepted auditing standards, standards for attestation engagements, or standards for accounting and review services, as to whether the presentation of information used for guidance in financial transactions or for accounting for or assessing the status or performance of commercial and noncommercial enterprises, whether public, private, or governmental, conforms with generally accepted accounting principles or other comprehensive bases of accounting. "Reports on financial statements" does not include services referenced in RCW 18.04.350(6) provided by persons not holding a license under the act.

((+36+)) (39) **"Representing oneself"** for the purposes of RCW 18.04.295(2) and WAC 4-25-910(3), means having a license, practice privilege, certificate or registration that entitles the holder to use the title "CPA," "CPA-Inactive," or be a nonlicensee firm owner.

((+37+)) (40) **"Rules of professional conduct"** means rules adopted by the board to govern the conduct of CPAs and CPA firms while representing themselves to others as CPAs. These rules also govern the conduct of nonlicensee firm owners and all persons using the title CPA or CPA-Inactive.

((+38+)) (41) **"SEC"** means the Securities and Exchange Commission.

(42) **"State"** includes the states and territories of the United States, including the District of Columbia, Puerto Rico, Guam, and the United States Virgin Islands.

((+39+)) (43) **"Statements on auditing standards (SAS)"** are interpretations of the generally accepted auditing standards and are issued by the Auditing Standards Board of the AICPA. Licensees are required to adhere to these standards in the performance of

audits of financial statements.

((~~40~~)) (44) "Statements on standards for accounting and review services (SSARS)" are standards, promulgated by the AICPA, to give guidance to licensees who are associated with the financial statements of nonpublic companies and issue compilation or review reports.

((~~41~~)) (45) "Statements on standards for attestation engagements (SSAE)" are guidelines, promulgated by the AICPA, for use by licensees in attesting to assertions involving matters other than historical financial statements and for which no other standards exist.

AMENDATORY SECTION (Amending WSR 02-22-082, filed 11/5/02, effective 12/31/02)

WAC 4-25-640 What are the requirements concerning records and clients((+)) confidential information((-))? (1) Client: The term "client" as used throughout this section includes former and current clients. For purposes of this section, a client relationship has been formed when confidential information has been disclosed by a prospective client in an initial interview to obtain or provide professional services.

(2) Property of the licensee: In the absence of an express agreement between the licensee and the client to the contrary, all statements, records, schedules, working papers, and memoranda made by a licensee incident to or in the course of professional service to clients, except reports submitted by a licensee, are the property of the licensee.

(3) Sale or transfer of client records: No statement, record, schedule, working paper, or memorandum, including electronic records, may be sold, transferred, or bequeathed without the consent of the client or his or her personal representative or assignee, to anyone other than one or more surviving partners, shareholders, or new partners or new shareholders of the licensee, partnership, limited liability company, or corporation, or any combined or merged partnership, limited liability company, or corporation, or successor in interest.

(4) Confidential client communication((-)) or information: A licensee, certificateholder, firm owner, or employee of a licensee must not without the consent of the client or the heirs, successors or personal representatives of the client disclose any confidential communication or information pertaining to the client obtained in the course of performing professional services.

This rule does not:

(a) Affect in any way a licensee's, certificateholder's, firm owner's, or employee((+s)) of a licensee's obligation to comply with a lawfully issued subpoena or summons;

(b) Prohibit disclosures in the course of a quality review of a licensee's attest services;

(c) Preclude a licensee, certificateholder, firm owner, or employee of a licensee from responding to any inquiry made by the board or any investigative or disciplinary body established by law or formally recognized by the board. However, a licensee, certificateholder, firm owner, or employee of a licensee must not disclose or use to their own advantage any confidential client information that comes to their attention in carrying out their official responsibilities; or

(d) Preclude a review of client information in conjunction with a prospective purchase, sale, or merger of all or part of a

CPA's practice.

~~((3))~~ (5) Client records((-)): Licensees, certificateholders, and firm owners must furnish to their client or heirs, successors or personal representatives, upon request and reasonable notice:

(a) A copy of the licensee's, certificateholder's or firm owner's ~~((working papers, including))~~ records, schedules, and electronic documents, to the extent that such ~~((working papers include))~~ records ((that)) and schedules would ordinarily constitute part of the client's records and are not otherwise available to the client; and

(b) Any accounting or other records belonging to, or obtained from or on behalf of, the client, that the licensee, certificateholder, or firm owner removed from the client's premises or received for the client's account, including electronic documents; but the licensee, certificateholder, or firm owner may make and retain copies of such documents of the client when they form the basis for work done by the licensee, certificateholder, or firm owner.

Licensees, certificateholders, and firm owners must not refuse to return client records, including electronic documents, pending client payment of outstanding fees.

(6) Audit and review record retention requirements: For a period of seven years after a licensee concludes an audit or review the licensee must retain the following records and documents, including electronic records unless hard copies of such exist:

(a) Records forming the basis of the audit or review;

(b) Records documenting audit or review procedures applied;

(c) Records documenting evidence obtained including financial data, analyses, conclusions, and opinions related to the audit or review engagement; and

(d) Records documenting conclusions reached by the licensee in the audit or review engagement.

NEW SECTION

WAC 4-25-670 What enforcement actions must be reported to the board? (1) A licensee, certificateholder, or nonlicensee firm owner must notify the board, on a form and in the manner prescribed by board policy, within **thirty days** of the issuance of:

(a) A sanction, order, suspension, revocation, or modification of a license, certificate, permit or practice rights by the SEC, PCAOB, IRS, or another state board of accountancy for any cause other than failure to pay a professional license fee by the due date or failure to meet the continuing professional education requirements of another state board of accountancy; or

(b) Charges filed by the SEC, IRS, PCAOB, another state board of accountancy, or a federal or state taxing, insurance or securities regulatory body that the licensee, certificateholder, or nonlicensee firm owner committed a prohibited act that would be a violation of board ethical or technical standards.

(2) Sole practitioners are to report action taken against the sole practitioner, the sole practitioner's individual CPA license, the CPA firm, or the CPA firm license.

(3) Licensed CPA firms are not required to report on action taken against owners, principals, partners, or employees.

(4) If you hold a license or certificate issued through the foreign reciprocity provisions of the act, you must notify the board of any investigations undertaken, or sanctions imposed, by a foreign credentialing body against your foreign credential within thirty days of your receiving notice that an investigation has begun or a sanction was imposed.

AMENDATORY SECTION (Amending WSR 02-04-064, filed 1/31/02, effective 3/15/02)

WAC 4-25-750 What are the CPA firm licensing requirements? Attest services may only be offered or performed in a CPA firm licensed in Washington. An entity wishing to use "CPA(s)" or "certified public accountant(s)" in the firm name must first obtain a license from the board.

(1) How may a CPA firm be organized? A CPA firm may be organized as:

- (a) A proprietorship;
- (b) A partnership;
- (c) A professional corporation (PC) or professional service corporation (PS);
- (d) A limited liability company (LLC);
- (e) A limited liability partnership (LLP); or
- (f) Any other form of legal entity authorized by statute for use by a CPA firm.

(2) What happens when a CPA firm alters its legal form? A change in the legal form of a firm constitutes a new firm. Accordingly, the new entity must first obtain a CPA firm license from the board.

(3) What are the ownership requirements for a CPA firm?

(a) All owners of a licensed CPA firm are required to:

- (i) Be natural persons;
- (ii) Fully comply with the provisions of chapter 18.04 RCW;

and

(iii) Subject to discipline by the board for violations of chapter 18.04 RCW or 4-25 WAC;

(b) A simple majority of the ownership of the licensed firm in terms of financial interests and voting rights of all partners, owners, or shareholders must be:

- (i) Licensees in this state or holders of a valid license to practice public accountancy issued by another state;
- (ii) Entitled to practice public accounting in this state; and
- (iii) Principally employed by the corporation or actively engaged in its business.

(c) At least one general partner of a partnership, one shareholder of a corporation, and one manager of a limited liability company must be a licensee.

(d) Each CPA proprietor, partner, shareholder or manager who is either a resident or is entering the state and practicing public accountancy in this state must hold a valid Washington state license or practice privileges.

(e) The principal partner of the partnership and any partner having authority over issuing reports on financial statements must be a licensee under the act or holder of a valid license to

practice public accountancy issued by another state and must be entitled to practice public accounting in this state.

(f) The principal officer of the corporation and any officer or director having authority over issuing reports on financial statements must be a licensee under the act or holder of a valid license to practice public accountancy issued by another state and must be entitled to practice public accountancy in this state.

(g) The principal manager or member of a limited liability company and any member having authority over issuing reports on financial statements must be a licensee under the act or holder of a valid license to practice public accountancy issued by another state and must be entitled to practice public accountancy in this state.

(h) A nonresident CPA owner must be licensed to practice public accountancy in at least one state.

(i) A nonlicensee owner must:

(i) Be a natural person;

(ii) Meet the good character requirements of RCW 18.04.105

(1) (a);

(iii) Comply with the act and board rules; and

(iv) Be an active individual participant in the licensed firm or affiliated entities as these terms are defined in WAC 4-25-410; and

(j) A resident nonlicensee firm owner must meet the requirements of WAC 4-25-752 and register with the board concurrent with submission of the firm license, or submission of an amendment to the firm license, to the board.

(4) **What are the requirements for the firm's main office and a branch office?** The firm's main office must be under the direct supervision of a resident licensee.

A branch office is an office of a licensed CPA firm which is physically separated from the main office. A branch office operates under the CPA firm license of the main office.

(5) **How do I apply for an initial CPA firm license?** To apply for an initial CPA firm license you must use the application form(s) provided by the board and submit the completed form(s), all applicable fees, all required documentation including the following to the board's office:

(a) The firm name;

(b) Address and telephone number of the main office and any branch offices of the firm;

(c) Name of the managing licensee of the main office;

(d) Licensee owners' names and the states in which they hold CPA licenses;

(e) Name(s) of all nonlicensee owners;

(f) Complete registration form(s), including the appropriate fee, for each resident nonlicensee owner;

(g) Names of corporate directors, limited liability company managers, and all officers; and

(h) Type of legal organization under which the firm operates.

An application is not complete and cannot be processed until all fees, required information, and required documentation is

received by the board. Upon completion of processing, a CPA firm license will be mailed to the main office at the last address provided to the board.

The initial CPA firm license will expire on June 30 of the third calendar year following initial licensure.

(6) **How do I renew a CPA firm license?** To renew a CPA firm license you must use the form(s) provided by the board. In January of the year of expiration, a renewal form(s) will be mailed to the main office at the last address provided to the board. You must submit a properly completed renewal form(s), all applicable fees and all required documentation to the board by April 30th of the year of expiration. Failure to file a complete renewal form for a firm license by April 30 of the year of expiration will result in late fees. The board may waive, reduce, or extend the due date of renewal and/or late fees based on individual hardship. A renewal application is not complete and cannot be processed until all fees, required information, and required documentation is received by the board. Upon completion of processing, the CPA firm license will be mailed to the main office at the last address provided to the board.

The CPA firm license will expire on June 30 of the third calendar year following the date of renewal.

(7) **When must I notify the board of changes in the CPA firm?** A CPA firm must provide the board written notification of the following within (~~thirty~~) ninety days of its occurrence:

(a) Dissolution of a CPA firm;

(b) The occurrence of any event that would cause the firm to be in violation of (~~the provisions of the Public Accountancy Act (chapter 18.04 RCW) or these rules;~~) RCW 18.04.195 or this rule;
OR

(c) An event that requires an amendment to a firm license.

(8) **What events require a firm amendment?** A CPA firm must provide written notification to the board, by submitting a firm amendment form and the appropriate amendment fee, within (~~sixty~~) ninety days of the following events' occurrence:

(a) Admission or departure of an owner;

(b) Any change in the name of the firm;

(c) Change in the managing licensee of the main office; and

(d) Opening, closing, or relocating of the main office or of any branch office.

(9) **How long do I have to correct noncompliance with licensure requirements due to a change in ownership or an owner's credentials?** A CPA firm must notify the board within (~~sixty~~) ninety days of any change in ownership or lapse of an owner's license, certificate, registration or practice privilege that has caused the firm's license to be out of compliance with licensure requirements and must correct the noncompliance within ninety days of the lapse, unless the board grants a longer time period due to individual hardship.

AMENDATORY SECTION (Amending WSR 02-04-064, filed 1/31/02, effective 3/15/02)

WAC 4-25-910 What are the bases for the board to impose discipline? RCW 18.04.055, 18.04.295, and 18.04.305 authorize the board to revoke, suspend, refuse to renew or reinstate an individual or firm license, certificate, practice privilege, or registration as a resident nonlicensee firm owner; impose a fine not to exceed ((ten)) thirty thousand dollars; recover investigative and legal costs; impose full restitution to injured parties; impose remedial sanctions; impose conditions precedent to renew; or prohibit a nonlicensee from holding an ownership interest in a licensed firm for the specific acts listed below.

The following are specific examples of prohibited acts that constitute grounds for discipline under RCW 18.04.295 and 18.04.305. The board does not intend this listing to be all inclusive.

(1) Fraud or deceit in obtaining a license or in any filings with the board.

(2) Making a false or misleading statement in support of another's application for a license and/or certificate.

(3) Dishonesty, fraud, or negligence while representing oneself as a CPA, CPA firm, or a nonlicensee firm owner including but not limited to:

(a) Practicing public accounting in Washington state prior to obtaining a license;

(b) Making misleading, deceptive, or untrue representations;

(c) Engaging in acts of fiscal dishonesty;

(d) Purposefully, knowingly, or negligently failing to file a report or record, or filing a false report or record, required by local, state, or federal law;

(e) Unlawfully selling unregistered securities;

(f) Unlawfully acting as an unregistered securities salesperson or broker-dealer;

(g) Discharging a trustee's duties in a negligent manner or breaching one's fiduciary duties; or

(h) Withdrawing or liquidating, as fees earned, funds received by a CPA, CPA firm, or a nonlicensee firm owner from a client as a deposit or retainer when the client contests the amount of fees earned, until such time as the dispute is resolved.

(4) The following shall be prima facie evidence that a CPA, CPA firm, or a nonlicensee firm owner has engaged in dishonesty, fraud, or negligence while representing oneself as a CPA, CPA firm, or a nonlicensee firm owner:

(a) An order of a court of competent jurisdiction finding the CPA, CPA firm, or the nonlicensee firm owner to have committed an act of negligence, fraud, or dishonesty or other act reflecting

adversely on a CPA's, CPA firm's, or nonlicensee firm owner's fitness to represent himself or herself as a CPA, CPA firm, or a nonlicensee firm owner;

(b) An order of a federal, state, local or foreign jurisdiction regulatory body finding the CPA, CPA firm, or nonlicensee firm owner to have committed an act of negligence, fraud, or dishonesty or other act reflecting adversely on a CPA's, the nonlicensee firm owner's, or CPA firm's fitness to represent itself as a CPA, a nonlicensee firm owner, or a CPA firm;

(c) Cancellation, revocation, suspension, or refusal to renew the right to practice as a CPA or a nonlicensee firm owner by any other state for any cause other than failure to pay a fee or to meet the requirements of continuing education in the other state; or

(d) Suspension or revocation of the right to practice before any state or federal agency.

(5) Any state or federal criminal conviction or commission of any act constituting a crime under the laws of this state, or of another state, or of the United States.

(6) A conflict of interest such as:

(a) Self dealing as a trustee, including, but not limited to:

(i) Investing trust funds in entities controlled by or related to the trustee;

(ii) Borrowing from trust funds, with or without disclosure; and

(iii) Employing persons related to the trustee or entities in which the trust has a beneficial interest to provide services to the trust (unless specifically authorized by the trust creation document).

(b) Borrowing funds from a client unless the client is in the business of making loans of the type obtained by the CPA, CPA firm, or nonlicensee firm owner and the loan terms are not more favorable than loans extended to other persons of similar credit worthiness.

(7) A violation of the Public Accountancy Act or failure to comply with a board rule contained in chapter 4-25 WAC.

(8) Violation of one or more of the rules of professional conduct included in chapter 4-25 WAC or concealing another's violation of the Public Accountancy Act or board rules.

(9) Failure to cooperate with the board by failing to:

(a) Furnish any papers or documents requested or ordered to produce by the board;

(b) Furnish in writing a full and complete explanation related to a complaint as requested by the board;

(c) Respond to an inquiry of the board;

(d) Respond to subpoenas issued by the board, whether or not the recipient of the subpoena is the accused in the proceeding.

(10) Failure to comply with an order of the board.

(11) A CPA's or nonlicensee firm owner's adjudication as mentally incompetent is prima facie evidence that the CPA or nonlicensee firm owner lacks the professional competence required by the rules of professional conduct.

(12) Failure of a licensee, certificateholder, or nonlicensee firm owner to notify the board, on a form and in the manner

prescribed by board policy, within thirty days of the issuance of:

(a) A sanction, order, suspension, revocation, or modification of a license, certificate, permit or practice rights by the SEC, PCAOB, IRS, or another state board of accountancy for any cause other than failure to pay a professional license fee by the due date or failure to meet the continuing professional education requirements of another state board of accountancy; or

(b) Charges filed by the SEC, IRS, PCAOB, another state board of accountancy, or a federal or state taxing, insurance or securities regulatory body that the licensee, certificateholder, or nonlicensee firm owner committed a prohibited act that would be a violation of board ethical or technical standards.